Table 2: Sample of Recently Constructed Major Developments in the Fremont Trade Area

City	Type	Project Name	Developer/ Builder	Asking Price Range (Dollars)		Unit Size Range (Square Feet)		Price per Sq Ft Range (Dollars)	
Fremont	Condo	Gramercy at Park Lane West	Regis Homes	$359,000	$499,000	1,210	1,671	$297	$299
Fremont	Condo	Sonora at Montebello	KB Home	$290,000	$541,475	905	1,853	$320	$292
Fremont	Single Family	Cascades at Montebello	KB Home	$622,892	$673,438	1,770	2,045	$352	$329
Fremont	Single Family	Castilleja	Robson Homes, LLC	$578,000	$789,777	1,288	2,321	$449	$340
Fremont	Single Family	Cedarbrook	Regis Homes	$759,900	$815,900	1,918	2,368	$396	$345
Fremont	Single Family	Hummingbird	Robson Homes, LLC	$635,000	$709,000	1,599	2,210	$397	$321
Fremont	Single Family	Mission Estates	Robson Homes, LLC	$1,409,888	$2,047,000	3,151	4,550	$447	$450
Fremont	Single Family	Rosewood Cottages	Summerhill Homes	$630,000	$740,000	1,918	2,036	$328	$363
Fremont	Single Family	Rosewood Gables	Summerhill Homes	$705,000	$778,000	2,195	2,574	$321	$302
Fremont	Single Family	Villa D'Este Single Family	John Laing Homes	$1,035,000	$1,250,000	2,743	3,009	$377	$415
Fremont	Townhouse	Loredo at Montebello	KB Home	$414,000	$584,000	1,303	1,941	$318	$301
Fremont	Townhouse	Villa D'Este Condominiums	John Laing Homes	$579,000	$659,000	1,231	1,537	$470	$429
Fremont	Townhouse	Westerly at Park Lane West	Regis Homes	$539,900	$599,900	1,463	1,746	$369	$344
Hayward	Condo	Crossings at Eden Shores	Standard Pacific Homes	$409,000	$472,158	1,526	1,867	$268	$253
Hayward	Single Family	Bridgeport at Eden Shores	Standard Pacific Homes	$544,305	$588,505	1,687	2,196	$323	$268
Hayward	Single Family	Carrick Village at Stonebrae	Toll Brothers	$799,995	$1,113,908	3,412	5,050	$234	$221
Hayward	Single Family	Cryer Ranch	The Mark Pringle Company, LLC	$570,000	$625,000	2,266	2,445	$252	$256
Hayward	Single Family	Eden Pointe	KB Home	$384,561	$549,163	1,349	2,138	$285	$257
Hayward	Single Family	Highland Trail	Delco Builders & Developers	$599,900	$674,900	2,874	3,173	$209	$213
Hayward	Single Family	Stirling Village at Stonebrae	Standard Pacific Homes	$799,000	$852,465	3,123	3,798	$256	$224
Hayward	Single Family	Veranda Heights at Stonebrae Country Club	Pulte Homes	$724,800	$750,733	2,726	3,459	$266	$217
Hayward	Townhouse	Garden Walk	The Olson Company	$349,990	$419,990	1,335	1,765	$262	$238
Milpitas	Condo	Luna at Terra Serena	KB Home	$307,250	$520,801	905	1,853	$340	$281
Milpitas	Condo	The Paragon	DR Horton	$374,990	$479,990	1,171	1,691	$320	$284
Milpitas	Townhouse	Town Center Villas	Shapell Homes	$499,900	$579,400	1,389	1,704	$360	$340

Note: No data available for Union City and Newark, possibly because of a lack of development activity.

Source: Hanley Wood, 2010; Strategic Economics, 2010.

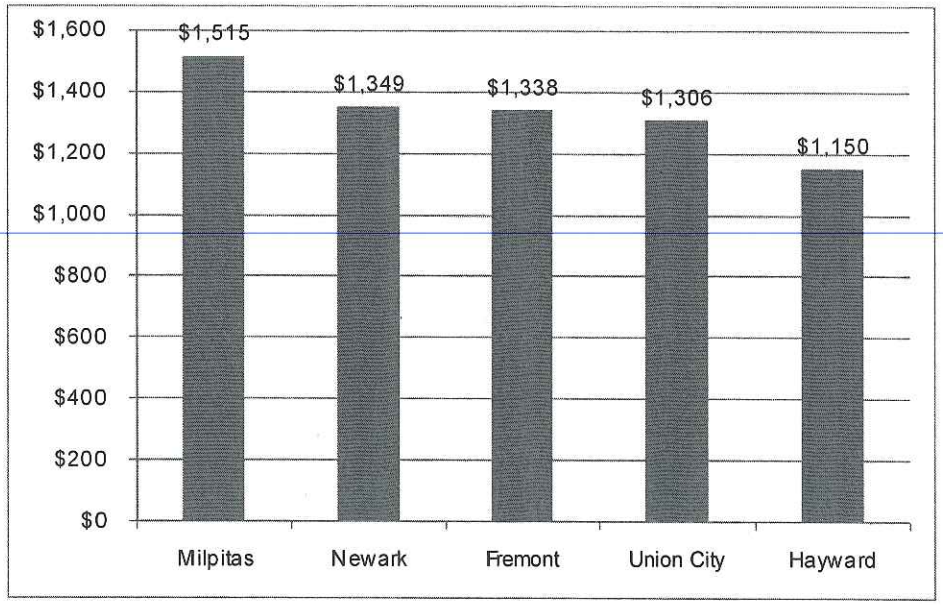
Rental Product

The rental market in Fremont is characterized as follows:

- Mid-priced within trade area.
- Suffering recent price declines, despite high occupancy rates.
- Units are concentrated near central and transit-oriented locations.
- Bargain entry to the Fremont market for budget- or maintenance-conscious families, singles, and seniors.

According to estimates from demographic data service Claritas, 35 percent of occupied Fremont housing units are renter-occupied; this low ratio is driven by the City's high share of single-family homes, which are less likely to be rentals than units in multifamily structures. As shown in **Figure 9**, Fremont's average apartment rental rate of $1,338 places the City on par with Union City and Newark, but below Milpitas and above Hayward. Average rental rates have fallen from a high of nearly $1,600 over the past two years; all competing cities have experienced a similar decline, but Fremont and Milpitas experienced the worst losses relative to their peaks.

Figure 9: Average Apartment Rental Rates, 2010



Source: RealFacts, 2010; Strategic Economics, 2010.

Despite the drop in rental rates, Fremont apartments have a very high occupancy rate of 96.2 percent, slightly outpacing all trade area cities except for Milpitas. Such high vacancy rates indicate a healthy rental market and high likelihood of additional development as the economy recovers.

Brokers report that apartments comprise the majority of Fremont's higher-density housing stock, and provide a low-cost entry to the city for budget-conscious families, and a low-cost, low-maintenance appeal to singles and seniors. Apartments tend to be concentrated in more central and transit-accessible areas.

Demand

Fremont Strengths

The Fremont housing market thrives based on the following strengths:

- *Local employment:* With a jobs to employed residents ratio of 0.93, Fremont slightly lags behind Alameda, San Mateo, and Santa Clara Counties (each with ratios slightly over 1.0), but is an employment center in its own right. Brokers stated local jobs as a major concern for improving housing market performance.
- *Easy access to regional employment centers:* Fremont is centrally located with the Bay Area, with easy automobile and transit access to major employment locations in the South Bay, San Francisco, and northern Alameda County.
- *High-quality schools:* Fremont has a desirable school system, drawing young couples and families.
- *Relative bargain pricing:* The median home values in Fremont and the surrounding trade area provide a relative bargain compared to other locations in the central Bay Area, such as San Mateo County and San Francisco.

Future Growth

ABAG projects that Fremont will experience growth of 14,880 households over the next 25 years, implying very strong long-term housing demand in the City. These projections imply growth of nearly 595 units annually—a number that approaches the City's recent maximum annual absorption of 600 units and far exceeds the average 320 unit absorption over the past ten years.

The Fremont housing market will need to experience a significant shift toward more compact development types if projected growth and housing demand are to be accommodated, especially since the City has only a few remaining large tracts of developable land. As previously discussed, recent development patterns indicate that developers have already begun constructing greater shares of higher-density housing types such as townhomes and condominiums, while also building historically popular single-family detached homes. However, Fremont faces the question of whether future growth will occur in a dispersed fashion that overloads roads and amenities, or if development will be focused in a more efficient manner.

In the following section, the Economics Team goes beyond simple housing demand projections and instead gauges the potential for transit-oriented development (TOD), a development pattern that can introduce efficiencies in growth patterns that allow greater densities while maintaining livability. Fremont has proven that it can easily capture demand for "business-as-usual" single-family home development. The TOD analysis instead asks whether Fremont can capture demand for households interested in transit-access and mixed-use communities in which daily needs are easily and comfortably accessed on foot.

Understanding TOD Demand

The Economics Team examined future housing demand based on the market activity influence of the existence and expansion of BART and other fixed-guideway transportation systems. Under the right conditions, development within the half-mile to one-mile radius around transit stations can host mixed-use, higher-density, walkable communities than would otherwise be possible, since access to robust transit reduces the need for automobile use and ownership. This station-area development pattern exemplifies a TOD.

Fixed-guideway transit reorganizes regional market activity by allowing for concentration of employment and/or residential uses within TODs. Demand for housing or offices that would otherwise be scattered throughout the region instead concentrates near transit stations because of the ease of inexpensive access created by transit proximity.

The commute trip is the primary organizer of market activity near TODs, since commute trips make up nearly 60 percent of all transit use[1] (this is logical since transit serves commute trips well because of their regularity and occurrence during peak rush-hour automobile traffic). Within the transit network, stations surrounded by housing serve as "origins" for commute trips, while those surrounded by jobs are "destinations."

The Economics Team assesses TOD housing demand based on three major conditions:

- *Regional demand for housing among **TOD-compatible** households:* Not only must housing demand exist within the region served by the transit network, but demand must include household types most likely to locate near transit. Research by the Center for Transit-Oriented Development shows that younger and older households without children generate the majority of demand for TOD.
- *Connectivity of system to destinations:* Station area housing demand is partly determined by whether the transit system provides a frequent, comfortable, and speedy linkage to concentrated employment centers that match resident skills and occupations. The added benefits of transit are undercut if the system fails to link to sufficient job concentrations near stations, with office-based jobs featuring higher employment densities than most industrial jobs. Further, stations closer to job concentrations and/or jobs compatible with the skills of TOD residents will attract greater housing demand than more distant stations of those featuring mismatched resident skill levels.
- *"Place-based" compatibility:* Regardless of the above two conditions, regulations and improvements within the station area must support TOD. The street grid must be well-connected and at a pedestrian scale to encourage walking and bicycling, automobile traffic must not be intimidating to other street users, sufficient density must exist to increase station use and generate a vibrant street environment, and basic goods and services must be located near housing to further reduce automobile need and encourage pedestrian traffic. Cities can encourage such development through planning regulations, street/streetscape design, and investments in adequate open space and utilities connections.

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[1] 2007 American Public Transit Association *Factbook*

Fremont in the TOD Demand Context

The Economics Team projected Fremont's TOD demand share by first examining the City under the three conditions for residential TOD listed above:

- *Regional demand for housing among TOD-compatible households:* In previous work for the Metropolitan Transportation Commission, Strategic Economics has found significant future regional growth among households likely to reside within a TOD. Historically the Fremont market has focused on a different, family-oriented type of household. Therefore, Fremont's ability to locally capture this demand depends on how well the next two conditions are met.

- *Connectivity of system to destinations:* While BART will serve San Jose and does serve many of the other cities in which Fremont residents work, demand driven by these commute patterns will be blunted by the dispersed nature of these employment centers. To determine Fremont's capture of future regional TOD household growth, the Economics Team analyzed current commute patterns of Fremont residents and how well the future expanded fixed-guideway transit system (especially BART) will connect to concentrated employment centers. As shown in **Table 3**, below, 21.5 percent of Fremont residents work in the City and another 10 percent in San Jose. The rest of the employment locations are highly dispersed, with no other city hosting more than 5 percent of the Fremont resident workforce.

- *"Place-based" compatibility:* Fremont's commitment to creating TODs within new BART station areas will ultimately determine whether they capture housing demand, since the City will be responsible for determining whether to implement regulations and infrastructure investments required to attract development.

Based on qualitative factors, Fremont is likely to capture a relatively small share of robust regional TOD housing demand by 2035. Although BART expansion will create a draw to the Warm Springs area, Fremont employment tends to be widely dispersed outside the City. BART expansions are not anticipated to directly connect high-density employment destinations that would more effectively bolster the Fremont housing market. Transit will still provide a limited boost to Fremont's ability to capture a greater share of TOD household types, but the increment is limited such that it may be necessary to heavily concentrate such housing—and public placemaking efforts—in one or two areas.

Table 3: Top Ten Cities in which Fremont Residents Work

City	Jobs	Share
Fremont	21,091	21.5%
San Jose	9,746	10.0%
San Francisco	4,551	4.6%
Santa Clara	4,387	4.5%
Hayward	4,357	4.5%
Sunnyvale	3,756	3.8%
Palo Alto	3,688	3.8%
Oakland	2,856	2.9%
Milpitas	2,599	2.7%
Newark	2,525	2.6%
All Other Locations	38,352	39.2%

Source: United States Census Longitudinal Employer-Household Dynamics, 2008; Strategic Economics, 2010.

Figure 10: Future BART Alignment and Current Employment Locations of Fremont Residents Near the Alignment, by ZIP Code

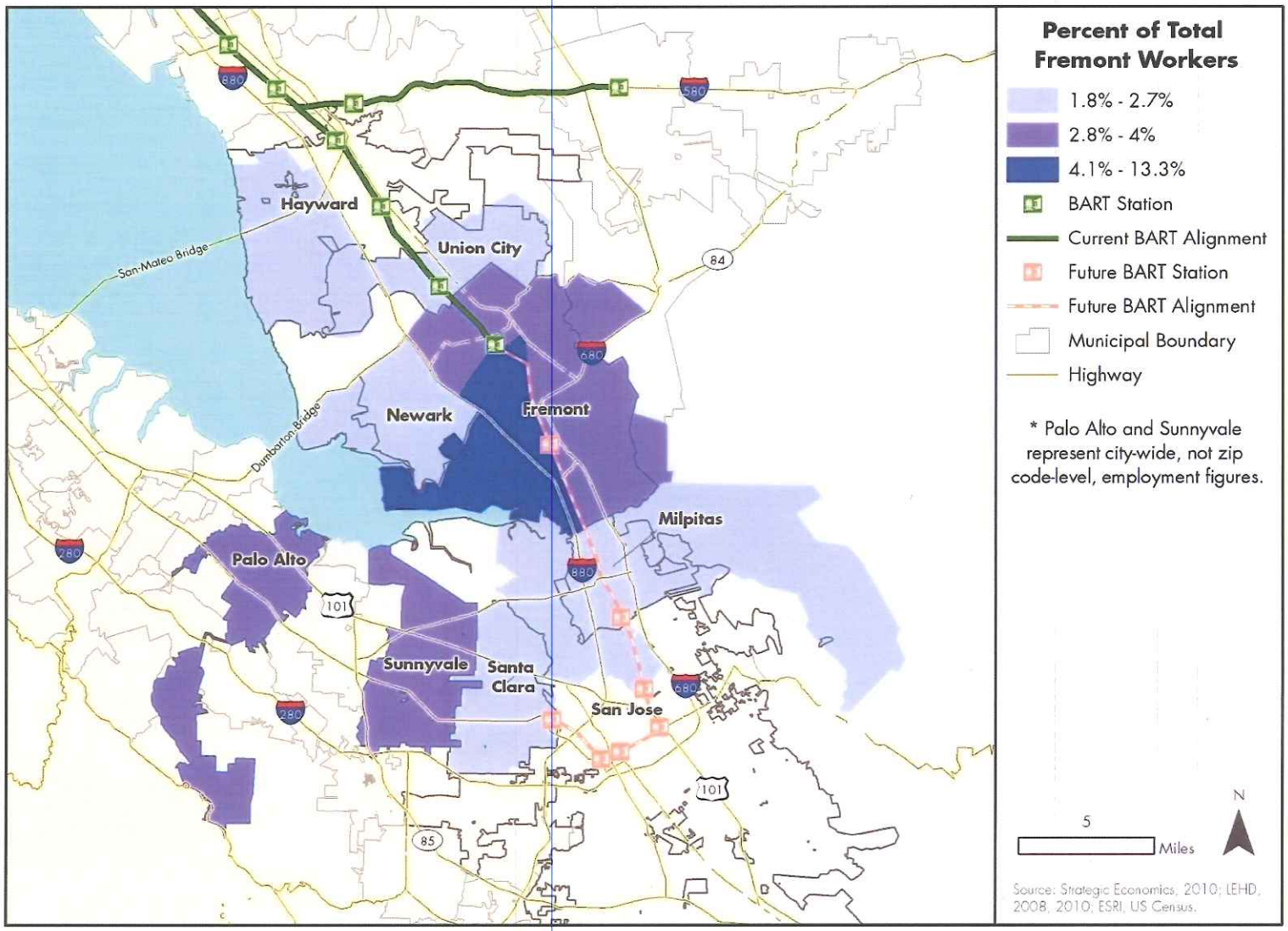
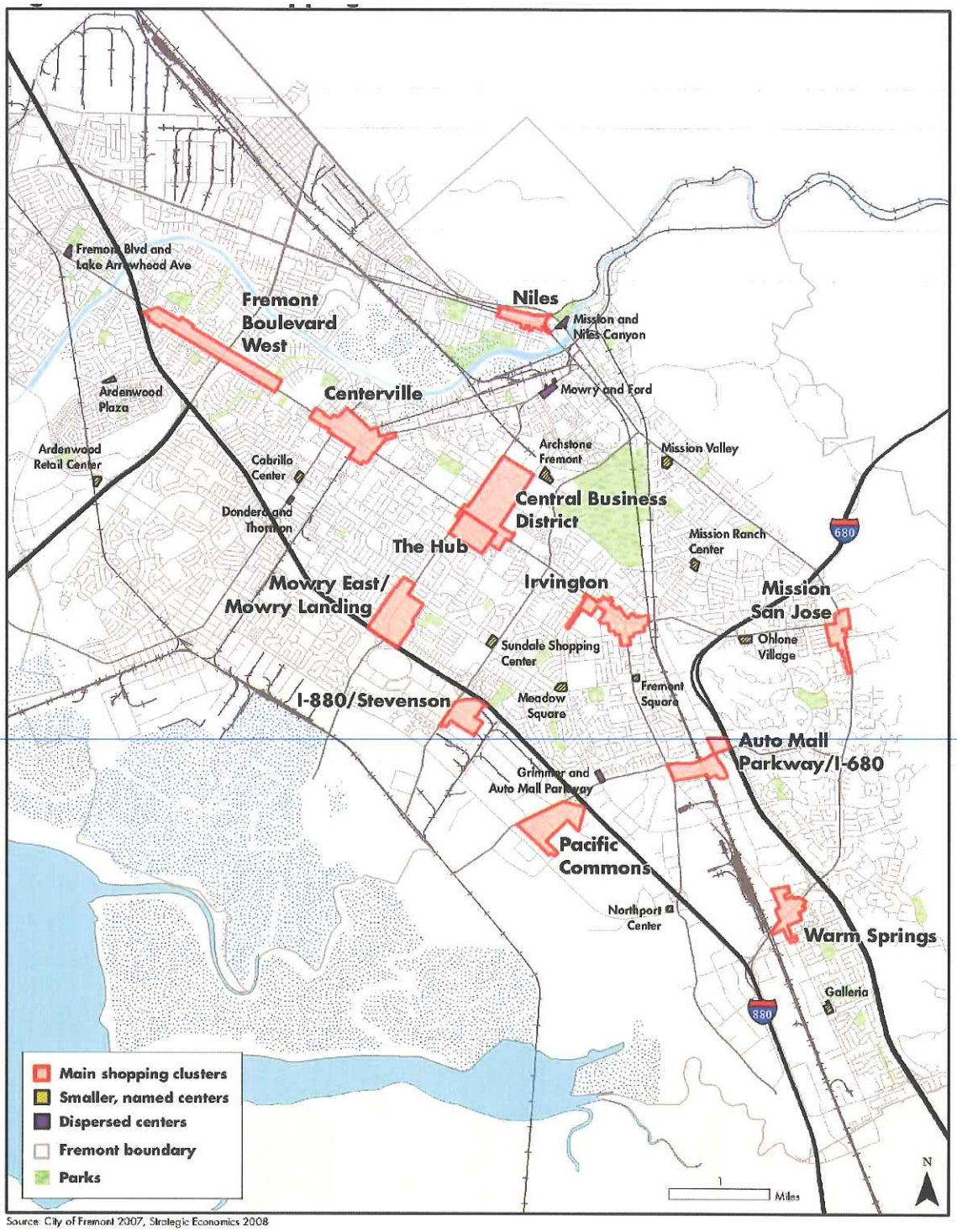


Figure 11: Existing Supply



Source: City of Fremont 2007, Strategic Economics 2008

- the secondary trade area which includes Fremont, Union City, Newark, and Milpitas—regional retail centers with comparison goods like big box stores and malls; and
- the tertiary trade area which extends to Pleasanton, Walnut Creek San Jose, and Palo Alto—comparison specialty or luxury goods, lifestyle centers.

Existing Competitive Supply

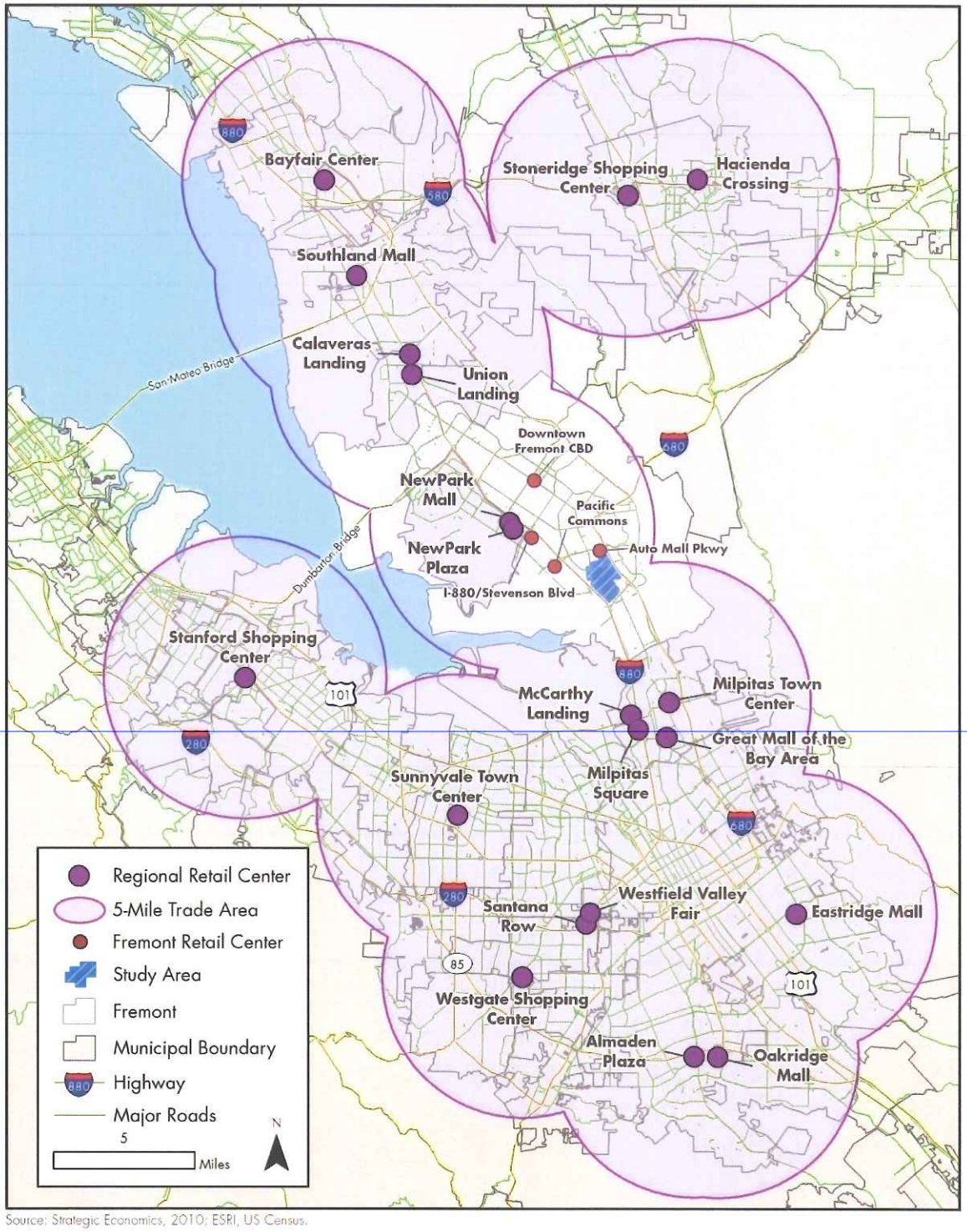
Fremont's secondary trade area extends from Union City to Milpitas. At present, the primary and secondary trade areas comprise almost 500,000 residents. Within this region, the City of Fremont, as the primary trade area, has approximately 214,000 residents.

The cities in the secondary trade area have several regional-serving power centers (McCarthy Ranch, +/-400,000 square feet, and Union Landing, +/-450,000 square feet) that are anchored by big box, value-oriented retailers such as Wal-Mart, Petsmart, Ross, and Borders Books. Although the tenant mix is slightly different, these centers are comparable in size and merchandise mix to Pacific Commons. All of these centers are oriented towards I-880 and draw from a highly mobile trade area extending from the Hayward border to the northern sections of San Jose that are not well served by any other retail centers.

The tertiary trade area for regional shopping centers includes cities that are farther away but which nevertheless attract Fremont residents. These centers include Bay Street in Emeryville, Broadway Plaza in Walnut Creek, Stoneridge Shopping Center in Pleasanton, Stanford Shopping Center in Palo Alto, and Valley Fair/Santana Row in San Jose, among others. They host a mix of value and upscale tenants, such as Best Buy, Banana Republic, Gap, Ann Taylor, Bloomingdale's, Macy's, Neiman Marcus, and Nordstrom.

The largest void in the existing supply of retail space anywhere within the primary and secondary trade areas are places that target higher income shoppers and follow the recent consumer trend of lifestyle and/or pedestrian-oriented retail centers. The existing supply does not offer an alternative to standard retail product types, nor does it provide the opportunity for visitors to stroll in a pedestrian friendly and entertainment-oriented environment. Fremont lacks the selection and upscale quality of retail centers that are available regionally in the East and South Bay communities. Until the development of Pacific Commons, Fremont had been lacking in comparison merchandise.

Figure 12: Competitive Supply



Source: Strategic Economics, 2010; ESRI, US Census.

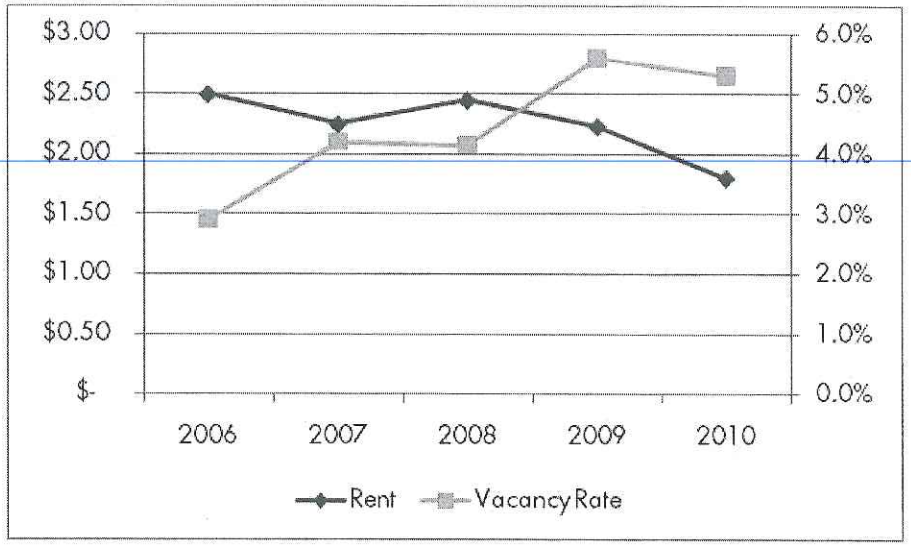
Market Performance

A recent City report providing an update of key retail indicators shows that retail performance has suffered since 2006, but some indicators remain relatively positive. Retail vacancy rates have risen from approximately 2.9 percent in 2008 to 5.3 percent, but are still very low in general. Average rents have fallen from approximately $2.50 to $1.80 per square foot. The 2010 report also shows that the proportion of 'shadow space' or space that is leased but not occupied has increased since 2006.

The 2006 retail study concluded that retail vacancy rates do not reflect that many of the retail clusters have a portion of space occupied being by non-retail uses. These non-retail uses include businesses such as medical/dental offices, mortgage/real estate offices, recreational facilities, etc. In some centers, the number of non-retail uses is actually very high. This is often an indication of older and obsolete retail space or locations that are not ideal for any retail and do not meet current retail standards.

A full update of retail sales was not completed for this report, but the 2010 retail update did track the change in retail sales tax revenue to the City. Major declines were seen in almost all major shopping clusters with the exception of the City Center which saw a modest increase of 3 percent. All other shopping clusters showed a decline in sales tax revenue of between 3 and 39 percent and most saw double digit declines.

Figure 13: Rental Rates and Vacancy Rates



Source: Boyd and Associates, 2010; CoStar Research, 2010.

Planned and Proposed Supply

The recent economic downturn has caused construction on retail projects to come to a halt and many projects that have received their entitlements are on hold. In contrast, in 2008, there was almost 2.5 million square feet of planned or proposed retail, 783,000 square feet of which was under construction. There are signs that the recession is starting to wane enough to pique the interests of retail developers. Construction on the last phase of the Pacific Commons Center is

scheduled to begin in 2011. The new Pacific Commons construction would add approximately 321,000 square feet of retail, including a Target and a Century Theater, for a total retail area of about 1.2 million square feet. Additionally, in late 2009, the 487,000 square-foot Creekside Landing shopping center was entitled in the Baylands subarea.

Demand

Market demand for retail goods comes from two sources. The first is from unmet demand within the market or trade area where the supply of stores is inadequate to meet demand. The second source is from a mismatch between supply and consumer preferences. This condition often occurs when retailing trends have shifted but retailers in any given market area have not necessarily kept up with these trends. This section discusses demand generated by residents based on their consumer preferences and then concludes with an estimate of long-term demand based on overall population growth.

Demographic Characteristics

Fremont has strong demographics characteristics from a retail perspective. At $98,587, the median household income is well above that of the County at $71,965 and the State at $62,401. Fremont residents are also well-educated. Forty-nine percent of Fremont's population has a Bachelor's degree or higher, compared to 39 percent for Alameda County and 29 percent for the State of California.

While basic demographics present a general picture of Fremont's population and their general tendencies towards retail spending, these data provide virtually no information about actual spending habits and the types of goods the City's residents are actually buying. The 2008 retail study used data from Claritas, a San Diego marketing and demographics firm that has been tracking household behavior, including lifestyle and buying habits, for 30 years. This "psychographic" data, in addition to the basic demographics such as age and income, can help to understand consumer expenditures on retail and entertainment. The 2008 retail study concluded that almost 60 percent of households fall into psychographic categories that could be considered to have "urban" shopping preferences. Fremont's psychographic profile is significantly different from surrounding areas and is similar to more affluent communities such as San Jose, Palo Alto and Walnut Creek. This has important implications for the demand for high quality urban shopping experiences and the ability to support such retailers.

It appears that Fremont residents are shopping in Fremont for their daily needs but go to Walnut Creek, San Jose and Palo Alto to shop for higher end merchandise. Because of this mismatch between resident shopping preferences and available supply, there is opportunity to create shopping districts that provide all of the features associated with "walkable urbanism" including more boutique shops, outdoor dining and cafes, entertainment, and dense housing. This is in keeping with current efforts in the City Center (Midtown Plan) and Centerville. However, creating an urban shopping experience can be challenging and many of the most successful examples were able to start with an historic downtown which was revitalized and expanded. Since those opportunities in Fremont are limited, efforts to build this kind of retail should be focused in existing retail clusters to take advantage of existing synergies. The following section discusses the magnitude of retail demand in the long term.

Long-Term Demand

In order to assess the long-term demand for retail, the Economics Team used population projections from ABAG to calculate the incremental increase in population between 2010 and 2035. ABAG projects a population increase of 116,000 between 2010 and 2035, 42,000 of which are projected to be Fremont residents. The demand generated by these residents could be captured within Fremont if new retail provides a good match with the consumer preferences mentioned in the above section. Once the incremental population was calculated, sales tax data from the State Board of Equalization was used to calculate per capita spending in the primary trade area. Multiplying population time per capita spending provides an estimate of total future demand in the primary trade area. Fremont can only be expected to capture a portion of this demand. Low and high capture rates were developed using a combination of Fremont's existing capture of sales and estimates of future capture rates based on market demand (see **Table 5**). Multiplying these capture rates by total demand results in an estimate of retail demand in Fremont between 2010 and 2035.

Table 5: Assumed Fremont Capture Rates of Future Retail Growth within Trade Area

Retail Category	High Capture Rate	Low Capture Rate
	2010-2035	2010-2035
Apparel stores	14.3%	10.0%
General merchandise stores	54.0%	45.0%
Food stores	51.3%	45.0%
Eating and drinking places	38.2%	30.0%
Home furnishing and appliances	53.0%	40.0%
Other retail stores	42.9%	35.0%

Source: Strategic Economics, 2010.

Table 6: Potential for New Retail in the Fremont Trade Area (in net sq. ft. of leasable space)

Retail Category	High Capture Rate 2010-2035	Low Capture Rate 2010-2035
Apparel stores	177,300	123,800
General merchandise stores	1,010,300	841,700
Food stores	707,400	621,000
Eating and drinking places	712,100	559,500
Home furnishing and appliances	259,200	195,800
Other retail stores	1,953,600	1,592,400
TOTAL	4,819,900	3,934,200

Source: State Board of Equalization, 2010; Association of Bay Area Governments, 2010; Strategic Economics, 2010.

As mentioned in the retail supply section, approximately 321,000 square feet of retail is already planned for Pacific Commons and 487,000 is entitled for Creekside Landing, while the draft Midtown and Centerville area plans call for some new retail to be constructed and some shifting of existing retail. In addition, urban retail on a smaller scale is also called for in plans for Irvington and Niles. However, not all of this demand will be fulfilled by the construction of new retail stores or centers. Some of this demand will be fulfilled by revitalizing older, underperforming retail, resulting in higher sales. Fremont, with its high median incomes and resident preferences for urban style retail, has the potential to capture a greater portion of high-end retail compared to other cities in the trade area.

Conclusions

The retail analysis shows that there is significant long-term demand for high-quality retail in the Fremont Trade Area and the primary focus should be on providing retail in an urban format. Some of the demand will be absorbed by improving existing centers. However, the study also showed that while there is demand for additional retail, there is a significant amount of dispersed retail. This points to the need to concentrate or "prune" the existing retail supply in order to create more synergistic retail centers. In addition, this retail concentrating would serve to strengthen key retail nodes that focus on good locations and a strong tenant mix, and create a critical mass. In addition, clustering retail businesses could help with pedestrian connectivity and provide for more sustainable development patterns in the future.

This dispersion of retail throughout the City also serves to dilute from those areas that are considered commercial cores, especially in the historic districts. For example, downtown Centerville continues to compete with the Brookvale Shopping Center for neighborhood-serving retail thereby limiting its ability to create a strong retail core. Anecdotal evidence suggests that the City of Berkeley has successfully used this strategy along San Pablo Avenue. Over the past

eight years, the City has allowed a number of residential projects along San Pablo Avenue on sites that were previously zoned for commercial uses. The combination of additional residents and retail pruning has revitalized the adjacent neighborhood commercial districts.

There are currently two area plans[2] whose goal is to attract a significant amount of urban style retail. However, because these plans are in areas where there is no existing historic 'town center' to use as a base for this type of retail, efforts to attract retail will be more difficult that it might be in other cities. Attempting to develop additional lifestyle or urban shopping districts will further dilute efforts in Midtown and Centerville.

Given current area plans, efforts to date in existing neighborhoods, and site considerations, retail development in the study area should be limited to community-serving retail in the near to mid-term to prevent competition with existing retail centers. In the long term, once area plans in Midtown and Centerville have gained momentum, regional-serving retail can be considered in the study area.

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[2] City Center (Midtown) and Centerville.

IV. HOTEL

Existing Supply

For this analysis, the Economics Team evaluated the market for hotels in the Fremont Trade Area.[3] There are a total of 71 hotels with 8,702 hotel rooms in the Fremont Trade Area (see **Table 7**). The hotels were divided into two market segments: Midscale/Economy, mostly serving budget-conscious travelers, and Upscale/Luxury Hotels, primarily serving the business/ conference market. The majority of the hotels in the trade area are in the Midscale/Economy segment, no doubt taking advantage of visibility and access along the highway corridors. **Figure 13** shows the Midscale/Economy Hotels in the trade area. The Upscale/Luxury segment generally contains larger hotels, so while the Midscale/Economy segment comprises 75 percent of hotel properties in the trade area, it comprises 60 percent of total hotel rooms (see **Table 8**).

Table 7: Number of Hotels and Hotel Rooms

	Hotel Properties			Hotel Rooms		
	Market Area	Fremont	Fremont Share	Market Area	Fremont	Fremont Share
Midscale/Economy Hotels	53	16	30%	5,176	1,727	33%
Upscale/Luxury Hotels	18	4	22%	3,526	734	21%
Total Hotels/Total Rooms	**71**	**20**	**28%**	**8,702**	**2,461**	**28%**

Source: Smith Travel Research, 2010; Strategic Economics, 2010.

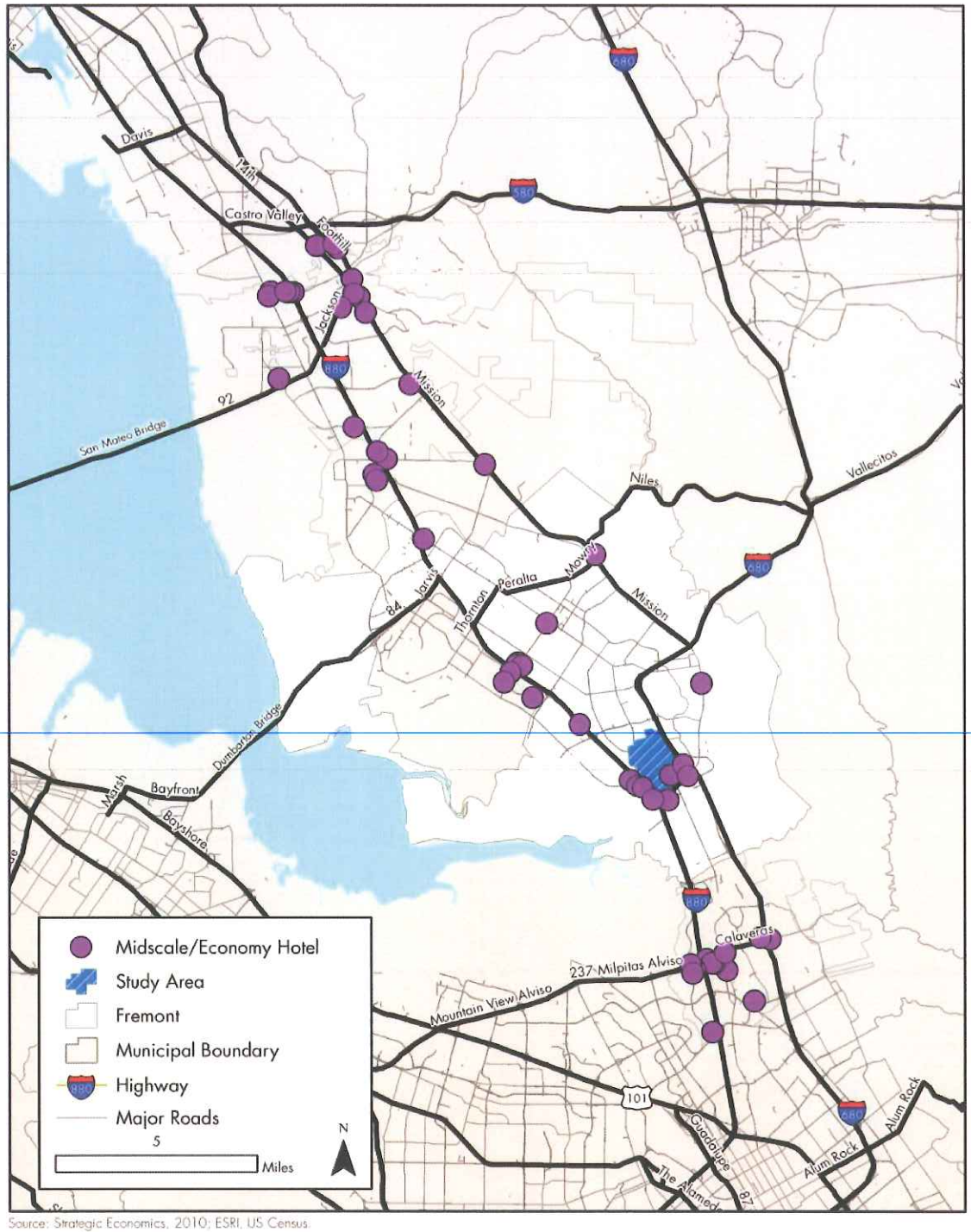
Table 8: Average Property Size

	Average Property Size	
	Market Area	Fremont
Midscale/Economy Hotels	98	108
Upscale/Luxury Hotels	196	184
Total Rooms	**147**	**146**

Source: Smith Travel Research, 2010; Strategic Economics, 2010.

[3] The trade area for hotels includes Fremont, Hayward, Milpitas, Newark and Union City.

Figure 14: Midscale/Economy Hotels in the Trade Area

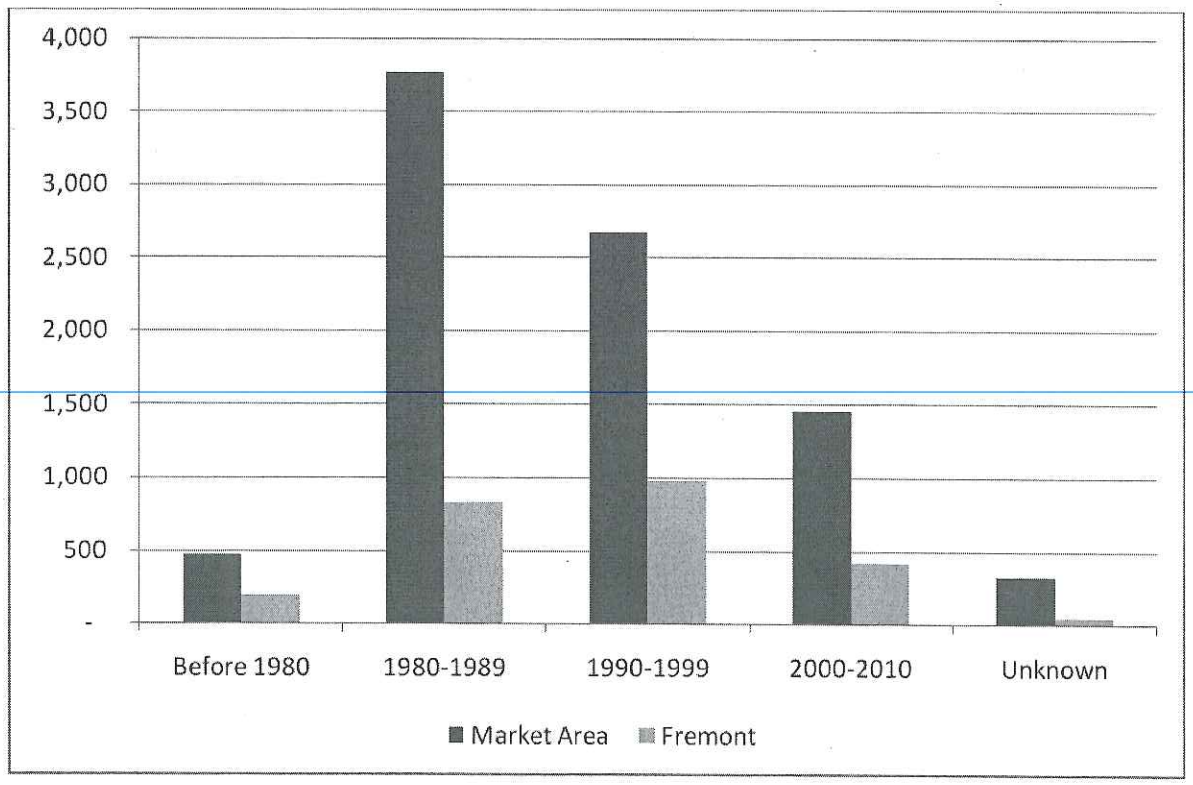


Source: Strategic Economics, 2010; ESRI, US Census.

Almost 30 percent of all hotel rooms in the market area located in Fremont. Fremont contains 30 percent of Midscale/Economy and 22 percent of Upscale/Luxury hotel properties and about the same breakdown of hotel rooms by segment. A large percentage of the Upscale/Luxury hotels are located in Newark and Milpitas. Many of the hotels in Milpitas are branded as San Jose hotels suggesting that Milpitas is better able to serve the Silicon Valley business market than the other cities in the trade area.

Data on hotel construction from Smith Travel Research shows that over the past 40 years, the number of hotel rooms built varies significantly from decade to decade (see **Figure 15**). There was a boom in hotel construction in the 1980s and 1990s, when the region was rapidly expanding, followed by a significant slowdown in the early 2000s. Since 2002, there have been no new hotels built in the trade area. Looking at long-term trends over the past 30 years, the trade area has absorbed approximately 263 rooms per year, while Fremont has absorbed 74 rooms per year.

Figure 15: Number of Hotel Rooms Built by Decade



Source: Smith Travel Research, 2010; Strategic Economics, 2010.

Market Performance

As mentioned above, the supply of available rooms has been basically static for the past six years (see **Tables 9** and **10**). There was a slight increase of 16 additional rooms in the Luxury/Upscale segment. The Average Daily Rate remained modest even during peak of the economy at $70.65 for Midrange and $112.68 for Luxury hotels. Occupancy rates were similar among both Midrange and Luxury hotels. During the same period occupancy rates for Midrange hotels moved from a low of 54 percent in 2004 to a peak of 68.7 percent in 2007 and dropped down to 57 percent at the end of 2009. Occupancy rates for Luxury hotels moved from 55.6 percent in 2004 to a peak of 68.5 in 2007 and dropped to 55.4 percent at the end of 2009. These occupancy rates are considered at or below the break-even point. The year-to-date occupancy rates for 2010 are up from last year in both segments, suggesting that occupancy rates could be recovering. Room rates followed a similar trend to occupancy rates, peaking in 2008 and falling during the recent recession.

Demand and Conclusions

Several parcels in the study area have strong regional access and good highway visibility, ideal for mid-scale and economy hotels. This segment also comprises 60 percent of hotel rooms in the trade area. The data also indicates that Fremont has strength in this market segment. However, given that no new hotels were built even during the last market peak, and occupancy rates remained relatively modest, suggests limited demand for hotels in the short term. Until occupancy rates and average daily rates rise, it is unlikely that significant hotel room additions will occur in the trade area. In the medium to long term, assuming long-term trends continue, there could be demand for an additional 2,200 rooms over the next 30 years. Given that this trade area is attracting primarily budget-conscious business travelers, opportunities for new hotel construction will hinge on a strong regional economic recovery and job creation.

Table 9: Midscale Economy Hotel Trends

	2004	2005	2006	2007	2008	2009	2010*
Available Room Nights	1,889,240	1,889,240	1,889,240	1,889,240	1,889,240	1,889,240	1,889,240
Change from Previous Year		*0%*	*0%*	*0%*	*0%*	*0%*	
Occupied Room Nights	1,019,705	1,140,966	1,211,582	1,297,499	1,241,725	1,076,598	829,664
Change from Previous Year		*12%*	*6%*	*7%*	*-4%*	*-13%*	
Occupancy	54.0%	60.4%	64.1%	68.7%	65.7%	57.0%	66.0%
Average Daily Rate (ADR)	$57.77	$57.89	$64.03	$69.33	$70.65	$59.89	$58.19

Source: Smith Travel Research *Figures for 2010 are YTD

Table 10: Upscale Hotel Trends

	2004	2005	2006	2007	2008	2009	2010*
Available Room Nights	1,281,150	1,281,150	1,286,990	1,286,990	1,286,990	1,286,990	856,818
Change from Previous Year		*0%*	*0%*	*0%*	*0%*	*0%*	
Occupied Room Nights	725,588	764,885	871,048	881,649	858,269	713,246	469,807
Change from Previous Year		*5%*	*14%*	*1%*	*-3%*	*-17%*	
Occupancy	56.6%	59.7%	67.7%	68.5%	66.7%	55.4%	65.1%
Average Daily Rate (ADR)	$90.33	$94.01	$99.76	$108.41	$112.68	$96.69	$95.57

Source: Smith Travel Research *Figures for 2010 are YTD